

**A
U
D
I
T

R
E
P
O
R
T**

SCOTTSDALE CITY COUNCIL

Herbert Drinkwater, Mayor
Councilman Greg Bielli
Councilman James Burke
Councilwoman Mary Manross
Councilman Robert Pettycrew
Councilman Donald Prior
Councilman Richard Thomas

**SECTION 8
TRANSACTIONS REPORT**

An examination of irregularities at the City Community
Assistance unit did not identify any financial fraud.

**Report No. 9403A
September 1995**



September 29, 1995

To the Most Honorable Herbert R. Drinkwater, Mayor
and the Members of the Scottsdale City Council:

Transmitted herewith is the City Section 8 Transactions Report No. 9403A. This audit was an extension of a scheduled project approved by City Council as part of the City Auditor's 1994 Audit Plan. The original report, City Section 8 Housing Assistance Program Operations, Report No. 9403, was issued in June 1995.

Work on the extended audit was performed by Janet Lowden and Gary Rice. We also gratefully acknowledge the assistance of Interim Community Assistance Manager Joe Kisler and the housing agency staff, and City of Scottsdale Police Detectives Bill Moloney and Robert Hill. Audit work was coordinated with Mel Bernard, Special Agent in the Office of Inspector General, US Department of Housing and Urban Development.

Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III Scottsdale Revised Code §2-117 *et seq*, with one exception. The last peer review of the City Auditor was completed April 5, 1991. Thus we currently do not comply with the standards' three-year peer review cycle requirement.

If you need additional information or have any questions, please feel free to contact us at 994-7756.

Respectfully submitted,

A handwritten signature in cursive script, reading "Cheryl Lee Barcala".

Cheryl Barcala, CIA/CPA/CFE
City Auditor

TABLE OF CONTENTS

Action Plan.....	i
Introduction	1
Results In Brief.....	1
Background.....	2
Chain of Events Led To Management	
Changes and Extended Inquiry.....	3
Findings.....	6
Recommendations	7
Response.....	8
Attachments	9

City Section 8 Transactions Action Plan

No	MANAGEMENT RESPONSE		IMPLEMENTATION STATUS		RECOMMENDATIONS
	AGREE	DISAGREE	UNDERWAY	PLANNED	
1	X			X	<p>The Community Assistance Manager should develop and implement:</p> <p>A routine on-site monitoring program for housing agency sub-recipients, for program and financial compliance.</p> <p>An inventory and tagging process for equipment purchased with federal funds.</p>
2	X			X	

INTRODUCTION

In June 1995, we reported about how well the City's Lower Income Housing Assistance Program, commonly called Section 8, was working (City Section 8 Housing Assistance Program Operations, Report No. 9403, June 1995). This and other assisted housing programs are federally funded through the US Department of Housing and Urban Development (HUD). We also reported that we were continuing to work to determine if documents which came to our attention during the audit were valid documents. Our objectives for the extended audit were to: 1) determine whether the documents in question were authentic, and if not, determine the origin of the documents; 2) determine whether or not assets had been diverted or funds expended for unauthorized purposes in both the Section 8 and the Community Development Block Grant (CDBG) programs; and 3) determine whether or not year-end reports to HUD accurately reported earned administrative fees.

Results In Brief

We ascertained that two HUD documents found in the Community Assistance unit were forgeries, and that computer records apparently were destroyed deliberately. We were unable to confirm the documents' origins or the agent of record destruction. The former Community Assistance Manager withheld from his superiors, the Planning Administrator, the General Manager Planning and Development, and the City Manager, information about program performance which he was bound by his position to disclose, and did not give the City Auditor records he was told by the General Manager Planning and Development to provide.

After auditing financial records, we did not become aware of any fraud which resulted in financial gains for specific individuals. However, we did find potentially ineligible or unreasonable expenditures totaling \$134,400 made from Section 8 and CDBG funds. These expenditures have been turned over to the Interim Community Assistance Manager (Interim Manager) for research. He currently anticipates needing six months to determine the appropriateness of the expenditures. If it is determined that these are not appropriate, the City may be required to reimburse HUD.

The General Manager Planning and Development and the Interim Manager were kept informed of findings throughout this audit's course, and took immediate action to ameliorate issues. Moreover,

the Interim Manager initiated research and mitigation on questionable expenditures which he identified. He was then able to report effective corrective action when briefed on audit findings. He determined that the City will reimburse HUD \$34,232, of which \$22,566 is included in the amount auditors identified. These expenditures relate to assistance provided Belleview Apartment residents which continued beyond the end of the audit fieldwork.

We are not able to offer assurance that problems in the City's assisted housing programs have all been detected, because some types of fraud are difficult to identify. Audit steps performed to look for such activities did not identify any. We believe that actions recommended in the Follow-Up of CDBG Internal Control Weaknesses, Report No. 9004.1, and in City Section 8 Housing Assistance Program Operations, Report No. 9403, once implemented effectively, will help to deter potential fraud in the programs. Changes would aid management oversight of the housing programs through establishing City budgetary control, implementing periodic management reports comparing planned objectives to achieved results, verifying reports to source documents, and implementing good business practices, such as effective internal controls. All of these actions serve to foster a rigorously honest management environment.

In addition to these previously recommended actions, the City needs to establish routine on-site monitoring of sub-recipient program operators for program and financial compliance. Monitoring is a requirement of the City's participation in federal programs, and is good business practice. Moreover, it is likely that HUD is going to significantly reduce its own monitoring in the future, relying instead on local program oversight. The City also needs to establish separate inventory control over equipment bought with federal funds.

Background

To enhance understanding of the issues involved in this audit, concepts discussed in this report are defined. Arizona Revised Statutes define two concepts, forgery and fraud. A professional audit reference defined a third concept, management fraud, as distinguished from financial fraud where funds or assets are taken for personal use.

Forgery is defined below:

ARS d 13-2002. Forgery; classification

- A. A person commits forgery if, with intent to defraud, such person:
1. Falsely makes, completes or alters a written instrument; or
 2. Knowingly possesses a forged instrument; or
 3. Offers or presents, whether accepted or not, a forged instrument or one which contains false information.

The statute further defined the activity. "'To falsely make a written instrument' means to make or draw a complete or incomplete written instrument which purports to be an authentic creation of its ostensible maker but which is not either because the ostensible maker is fictitious, or because, if real, he did not authorize the making or drawing of such written instrument." (*ARS d 13-2001.8.*)

Fraud is a specific legal concept, defined in the Arizona Revised Statutes in the following manner:

ARS d 13-2310. Fraudulent schemes and artifices; classification; definition

- A. Any person who, pursuant to a scheme or artifice to defraud, knowingly obtains any benefit by means of false or fraudulent pretenses, representations, promises or material omissions is guilty of a class 2 felony.

A key factor to a legal finding of fraud is obtaining benefit from the activity. Commonly thought of as financial benefit, internal audit literature recognizes fraud which may not result in financial gain or loss. Termed "management fraud," audit literature places separate emphasis on prevention and detection of this activity, because managers occupy positions of trust beyond the reach of ordinary internal controls. Management fraud is any deception practiced by managers to benefit themselves at the organization's expense. The deception can be for monetary gain, or to retain or gain organizational status or to enhance personal ego.

**Chain of Events Led To
Management Changes And
Extended Inquiry**

During the final stages of the Section 8 operational audit in early 1995, events occurred which led to management changes and to an extended fraud inquiry into Community Assistance unit operations. (See Attachment 2.) First, auditors experienced problems accessing records. Useful data concerning how many tenants were enrolled in Section 8 from month to month was not provided, although the

information was basic to estimating earned revenue. Auditors never were able to meet as promised with the consulting accountant hired by the former Community Assistance Manager. Numerous requests to get copies of fiscal year 1993/94 year-end reports were not responded to, although the reports were due to HUD in mid-August 1994. The former Community Assistance Manager stated that the reports were not done. Historically, access to records difficulty and chronically late reports can be a fraud indicator to auditors.

Second, when the year-end reports were provided they were incomplete and contained a questionable document. The former Community Assistance Manager had handwritten copies of the 1993/94 reports delivered to the auditors. Included in the packet was an undated HUD letter signed by Allen Field, Data Analyst Specialist, Office of Public Housing, US Department of Housing and Urban Development, Phoenix Office Region IX, verifying the City program's administrative fee structure, a factor which influences how much revenue the housing agency earns. (See Attachment 3.) However, required supporting schedules were missing. The City Auditor requested the missing schedules by speed memo. At the same time, audit staff telephoned the Phoenix HUD office to discuss administrative fees set out in the Field letter.

Auditors were informed that the author of the letter, Allen Field, did not work for Phoenix HUD, although the letterhead and signature line indicated that he did. The HUD Financial Analyst further stated that she had already received and reviewed the City's year-end reports, and had labeled the City program "financially troubled" as a result of rising expenses and dropping revenue. Further, City reports used a "mistaken" computation factor resulting in inflated revenue claims. The reports initially had been signed over a month previously by the former Community Assistance Manager. Subsequently, auditors received written confirmation from the Phoenix Public Housing Director that no one named Allen Field had been employed in the Phoenix office, and that the Field letter was "fraudulent." (See Attachment 4.)

When the General Manager Planning and Development and the Human Resources Director asked him about inconsistencies, the former Community Assistance Manager stated that HUD had not finally approved 1993/94 year-end reports and that the program "may be in somewhat of a troubled status." He denied knowledge of the Field letter. He agreed that a non-disciplinary, administrative

leave was appropriate while auditors determined if anomalies existed in the City housing programs and relinquished his office key. The lock to the former Manager's office was changed without his knowledge.

The next day, Community Assistance unit staff reported their belief that someone had been in the office during the night because documents and personal effects were disturbed. The Scottsdale Police Department Fraud Investigation Unit was called by the General Manager Planning and Development. The police and the auditors sealed the former Manager's office and removed the computer. During the search of office contents, a Field letter which appeared to be the original was found in a file folder. Also found were two copies of a HUD desk audit report authored by Randolph Keeser. (See Attachment 5.) One copy was on letterhead and one was not. That afternoon, the former Community Assistance Manager resigned.

The HUD District Inspector General for Audit confirmed by letter that HUD did not conduct a desk audit of the City, and that there was no HUD employee of the name Randolph Keeser. (See Attachment 7.) Police analysis of a computer back-up tape found in the former Community Assistance Manager's office recovered a file containing the Keeser report and a draft memo addressed from the General Manager Planning and Development to the City Manager. (See Attachment 6.) Computer records showed that the two files were created on January 11, but subsequently were destroyed on the computer's hard drive so that they were unrecoverable from that source. Subsequent to the Interim Manager's taking office, housing agency staff reported to him their recollections of the former Community Assistance Manager talking about and getting documents for a HUD desk audit. The audit was supposed to occur at the HUD offices. According to the Interim Manager, staff did not recall ever seeing "Keeser."

Computer analysis determined that a person logged on as "sysop" (system operator) uploaded a destructive file into the former Community Assistance Manager's computer. The file was uploaded on the weekend (March 12), two days after the questionable year-end reports were given to the auditors. Uploading occurred via the bulletin board run by the computer while it was in the Community Assistance office. File names and dates of the destroyed files appeared related to Section 8. Historically, the former Community Assistance Manager had logged on as the system operator for the bulletin board.

Findings

We confirmed that the Field and Keeser documents were forgeries. We were not able to confirm the documents' originator(s). We confirmed that apparently the Keeser report was created on the computer in the former Community Assistance Manager's office and that "Randolf Keeser" was not seen by staff. We confirmed that documents furnished to the auditors by the former Manager were incorrect and incomplete. Accurate facts about program performance were concealed from the Planning Administrator, the General Manager, and the City Manager. We confirmed that City reports to HUD contained erroneous computation factors which inflated claimed revenue. HUD warns report signers that HUD will prosecute false claims and statements and that conviction may result in criminal and/or civil penalties. We ascertained that City computer records apparently relating to the audit inquiry were permanently destroyed via a remote location, but were not able to confirm the agent(s). According to professional audit literature, these elements suggest that management fraud may have occurred.

We did not find evidence of financial fraud for individual gain, although we cannot offer positive assurance that financial fraud was not done. We obtained and reviewed source documents for every expenditure over \$50 for Section 8 and CDBG during selected time periods. Expenditures appeared appropriately authorized. However, we identified potentially ineligible or unreasonable expenditures of \$134,400, shown below.

Community Assistance Unit Questionable Expenditures			
Program	Fiscal Year	Number of Transactions	Dollar Amount
Section 8	92/93	none	n/a
	93/94	2	1,986
	94/95*	15	14,539
CDBG	93/94	9	14,633
	94/95*	<u>29</u>	<u>103,265</u>
Total		55	\$134,423
*To February			
Source: Accounts payable records and audit analysis.			

In addition to potentially ineligible expenditures, other issues require management attention as well. Equipment bought with federal funds appeared appropriately authorized, eligible and reasonable, but the Community Assistance unit needs to establish and maintain a separate inventory of such equipment. We determined that errors existed in the fiscal year 1993/94 year-end reports to HUD in numbers of units under lease on the first of each month. The effect of the errors was to understate earned annual income by an estimated \$1,300. Implementation of a housing assistance payments register, recommended in the initial Section 8 report, should prevent such errors in the future.

We reviewed payroll salary charges, and determined that salary costs were supportable. However, the former Community Assistance Manager did not charge the City general fund for time he spent on City-specific projects. We were not able to quantify the amount of time which should have been charged to the City based on the records available to us. As well, vacation, sick, holiday and other non-productive staff time was not proportionally charged to each housing program. The creation of a comprehensive cost allocation plan, recommended in the initial Section 8 audit, should address this issue.

An issue which is related to one discussed in the 1994 CDBG follow-up report concerns facilitating management oversight of CDBG projects. The Rancho Vista affordable housing project was supposed to be accomplished by a majority of donated labor and materials. We determined that the Rancho Vista affordable housing demonstration project cost \$57,400 in CDBG funds. No documentation was found which tracked donations.

Finally, we believe that in future potential fraud situations, management should take steps immediately to "isolate" any related computer files to deter the possibility of computer records destruction experienced in this instance.

RECOMMENDATIONS

1. The Community Assistance Manager should develop and implement a routine on-site monitoring program for housing agency sub-recipients, for program and financial compliance.
2. The Community Assistance Manager should develop and implement an inventory and tagging process for equipment purchased with federal funds.

RESPONSE

TO: Cheryl Barcala,
City Auditor

FROM: Greg Larson,
Chief Information Officer



RE: RESPONSE TO SECTION 8
TRANSACTIONS REPORT
(No. 9403A)

DATE: September 29, 1995

Thank you very much for the time, effort, and special considerations of you and your staff in the execution and completion of your extended review of the Section 8 program. **The City administration agrees with both of your recommendations and plans to implement both of them by December 31, 1995.**

As noted in my response to your earlier report on the Section 8 Program, the City has already initiated several steps to further improve the management and financial operations of that program. My direction to the Interim Community Assistance Manager upon his appointment last Spring was to establish the financial and management infrastructure necessary to continue providing quality services to our most needy residents. Joe Kisler and the Community Assistance staff have made significant progress in that regard while at the same time continuing to serve their customers.

Though I did not supervise the previous Community Assistance Manager and am no longer the General Manager of Planning and Development, I am providing this response given my supportive role in identifying and resolving the issues raised throughout the scope of your review.

cc: Dick Bowers, City Manager
John Little, Organizational Effectiveness Administrator
Gary Roe, Planning Administrator
Joe Kisler, Interim Community Assistance Manager

Attachments

Attachment 1: Objectives, Scope and Method	11
Attachment 2: Time Line of Activities	13
Attachment 3: "Allen Field" Letter	19
Attachment 4: HUD Confirmation Letter	21
Attachment 5: "Randolf Keeser" Report	23
Attachment 6: Cover Memo	27
Attachment 7: HUD Confirmation Letter	29

ATTACHMENT 1

Objective, Scope, and Method

The objectives of the audit were to: 1) determine whether the Field and Keeser documents were authentic, and if not, determine the origin of the documents; 2) determine whether or not assets had been diverted or funds expended for unauthorized purposes in both the Section 8 and CDBG programs; and 3) determine whether or not year-end reports to HUD accurately reported earned administrative fees. Scope of work was limited to activities between June 1990 and February 1995.

Extended audit inquiry commenced on March 14th. Fieldwork ended on July 7, 1995. To determine whether fraud existed, we researched source documentation of any expenditure of over \$50 for Section 8 since program inception in August 1992, and in the CDBG program for fiscal years 1993/94 and 1994/95 through February 1995. We determined if the expenditure was eligible, authorized, and reasonable. On the basis of work completed, CDBG records for 1990/91, 1991/92 and 1992/93 were not reviewed. It was our judgment that the frequency of questionable transactions significantly dropped in earlier periods. Identified questionable transactions were given to the Interim Manager for disposition. We compared equipment purchase records with existing office inventory to identify missing assets.

We reviewed every recoverable document and other file from the former Community Assistance Manager's computer and office, and furnished documents concerning questioned transactions to the Interim Manager for disposition. We analyzed expected revenues and compared them to actual revenues for the housing agency. We determined on the basis of payroll records, total salary costs for the housing agency from fiscal year 1992/93 to date, to assess appropriateness of expenditures.

We reviewed a judgment sample of 15 months accounts payable records of housing assistance payments to determine how many units were under contract for the sample, and to identify questionable payments. Source documents were obtained and reviewed for questionable transactions. We performed a confirmation test of housing agencies to whom the City program paid housing assistance payments, utility payments, and administrative fees from a judgment sample of months. We coordinated audit work with work by the City of Scottsdale Police Department Fraud Investigation Unit and with the HUD Office of Inspector General.

ATTACHMENT 2

Time Line of Activities

- Monday, August 15, 1994. The Planning Administrator and the former Community Assistance Manager are briefed on preliminary audit findings from the Section 8 operational audit.
- August 21, 1994. The Section 8 Office Coordinator resigns.
- Monday, November 14, 1994. The former Community Assistance Manager sends a request to Purchasing to hire an accountant, requesting a sole source for this "specialized analysis and training" because of the internal audit and a HUD recommendation that the program improve financial management. The request states "The Phoenix area HUD office has recommended [sic] a specialized professional...HUD has also authorized the use of Section 8 program funds to assist with this unique and specialized financial assistance so no City General Funds will be used." In an interview on March 14, 1995, the HUD Financial Analyst stated that the former Community Assistance Manager told her that the accountant was hired and paid by the City. If Section 8 funds were used to pay for the accountant, then specific HUD procurement rules had to be complied with.
- Wednesday, January 11, 1995. Two documents are created on the former Community Assistance Manager's computer, one a draft memo from the General Manager Planning and Development to the City Manager concerning a report from a HUD desk audit, and the other a HUD desk audit report, with the signature line "Randolf Keeser."
- Monday, January 23, 1995. Memo from the accountant to the former Manager re: Financial Management Comments. The memo states that "each of the cert increments and the voucher program lost money for FY 6/30/94."
- Monday, January 30, 1995. Date the former Community Assistance Manager signs the HUD year-end reports for Section 8 which are sent to the HUD Phoenix office, and which have been prepared by the accountant. Documents submitted to HUD are missing supporting schedules for administrative fee earnings. Earnings have been overstated because the exception rents for Scottsdale have been used to calculate the fees, rather than the required Fair Market Rents for this metropolitan statistical area.

- Monday, February 6, 1995. Draft of the Section 8 audit report is furnished to the General Manager Planning and Development, the Planning Administrator, and the former Community Assistance Manager for courtesy review prior to initiating the 30-day formal written response process. The draft audit reports that Section 8 occupancy continues to drop, endangering the agency's revenue stream, and that internal controls and financial management processes are weak.
- Monday, February 13, 1995. First exit conference on the draft audit report, attended by the General Manager Planning and Development, the Planning Administrator, the former Community Assistance Manager, and the auditors. The former Community Assistance Manager submits a 16-page rebuttal to the audit findings. Significant disagreement exists between the auditors and the former Community Assistance Manager about the accuracy of findings. Auditors request several documents from the former Community Assistance Manager, including the fiscal year 1993/94 year-end reports to HUD, due to HUD by August 14, 1994 and very overdue; applications for additional housing assistance funds; and the local program administrative plan. These documents have been repeatedly asked for, but not received.
- Friday, February 24, 1995. The former Community Assistance Manager faxes supporting schedules to the HUD Financial Analyst to complete the year-end reports, noting on the fax cover that "I have no idea how these escaped being with the original package."
- Friday, February 24, 1995. Date HUD returns reviewed City Year End Settlement Statements for Fiscal Year Ended June 30, 1994, *correcting administrative fees earned to reflect authorized, lesser earnings*. The cover letter puts the program on notice that it has been placed in a financially troubled status.
- Wednesday, March 1, 1995. The former Community Assistance Manager writes the HUD Phoenix Director of Public Housing, enclosing "adjusted" year-end reports. In the letter, the former Community Assistance Manager asserts that "We anticipate a dramatic reduction in program expenses as operations are now fully staffed and supplied. Our projections indicate that vacancy rates are regularly dropping...We are

trying to find documentation that when an exception rent is applied in every bedroom category for a jurisdiction, that then becomes the new FMR for the jurisdiction. We have notes indicating the previous program manager received that determination during a Washington visit two years ago, but have not yet found any written determinations."

- Monday, March 6, 1995. Second exit conference on Section 8 draft audit report, with the General Manager Planning and Development, the Planning Director, the former Community Assistance Manager, and the auditors. The former Community Assistance Manager again states he will provide the fiscal year 1993/94 year-end reports to HUD that the auditors requested. The General Manager specifically directs him to provide the reports.
- Tuesday, March 7, 1995. The HUD Financial Analyst talks to the former Community Assistance Manager by phone, reconfirming that the exception rents may not be used to calculate earned administrative fees.
- Friday, March 10, 1995. The former Community Assistance Manager sends a copy of the Section 8 fiscal year 1993/94 Year End Settlements to the auditors. Copies furnished are handwritten. Supporting schedules required to be submitted to HUD are missing. The packet contains an undated letter from Allen Field, Data Analyst Specialist, Office of Public Housing, US Department of Housing and Urban Development, Phoenix Office Region IX, detailing earned fees by project for the fiscal year, and states "This letter should be used to supplement your year-end settlement as backup documentation." Audit staff are unable to determine how Field arrived at the earned administrative fee figures, and call HUD to talk to Mr. Field. At this point, HUD staff state that no Allen Field is employed in the local office.
- Friday, March 10, 1995. The Organizational Effectiveness Administrator and the General Manager Planning and Development are informed of developments by the auditors, and an approach to address the issues is developed.

- Sunday, March 12, 1995. Records on the former Community Assistance Manager's computer show that "sysop" uploads a file named "Enigma" into the computer via the bulletin board in the afternoon. Subsequent analysis shows that the program is a destructive one which has written over computer files concerning Section 8 and other matters. Some files have also been "wiped," computer terminology for a method of insuring that deleted files cannot be recovered. Testing determines that Enigma, however, does not wipe files. The former Community Assistance Manager historically has logged on as system operator for the bulletin board.
- Tuesday, March 14, 1995. The Director of the Phoenix Office of Public Housing, sends a confirmation letter to the auditors indicating that the Allen Field letter is "fraudulent."
- Tuesday, March 14, 1995. The General Manager Planning and Development and the Human Resources Director meet with the former Community Assistance Manager. Questions related to the status of the program and documents presented to the auditor's office were discussed. The former Community Assistance Manager stated that the program was experiencing some problems. When asked about the Field letter, he denied recognizing it. He agrees with the General Manager Planning and Development to a non-disciplinary administrative leave until the auditors can determine whether or not anomalies exist in the City housing program. He relinquishes his key. At this time, the locks to the former Community Assistance Manager's office are changed without his knowledge.
- Wednesday, March 15, 1995. Pursuant to a call from the General Manager Planning and Development about an apparent unauthorized entry to the Scottsdale Housing Office sometime during the night, Scottsdale Police Department Fraud Investigation Unit officers seal the former Community Assistance Manager's office and seize the computer in his office as evidence. One of the documents subsequently found in the office is an apparent original of the Field letter. Another document found is an apparent original copy of a HUD audit report, undated, unsigned and on plain bond, which details the results of a HUD inspector general staff desk audit on December 12 and 13, 1994. In another file, the same report on letterhead is found, and that copy is dated January 17, 1995, and signed

by Randolph Keeser, Operation Analyst, Inspector General Office, Public Housing Division. Subsequently, the Keeser desk audit report and an associated cover memo are recovered from a back-up tape found in the former Community Assistance Manager's office. These files have been wiped on the computer's hard drive.

- Wednesday, March 15, 1995. The former Community Assistance Manager calls the General Manager Planning and Development and resigns from the City, and subsequently faxes a resignation letter to his immediate supervisor, the Planning Administrator.
- Friday, March 17, 1995. The HUD Financial Analyst for Phoenix provides the auditors HUD guidance regarding a name change for field offices to "Office of Public Housing." The name change is effective as of December 27, 1994. Thus, the conclusion is that the Field letter given to the auditors on March 10, 1995, was prepared some time after December 27, 1994, because Office of Public Housing is named as the sending office.
- Wednesday, March 22, 1995. A letter from the District Inspector General for Audit, US Department of Housing and Urban Development, regarding the Randolph Keeser desk audit report, states that "You asked Mr. Johnson whether the subject letter was from this office (Office of Inspector General). It was not, and there is no employee of this office staff with that name. Additionally, this office did not conduct a "desk audit" of the City's Section 8 Housing Program as stated in the letter. We have referred this matter to the Special Agent in Charge in HUD's Office of Investigations in San Francisco."
- March 14 to July 7, 1995. Audit fieldwork.

ATTACHMENT 3

"Allen Field" Letter



U.S. Department of Housing and Urban Development

Phoenix Office, Region IX
Two Arizona Center, Suite 1600
400 North Fifth Street
Phoenix, Arizona 85004-2361

Mark C. Appleby
Community Assistance Manager
City of Scottsdale Housing Agency
7522 E. First Street
Scottsdale, Az. 85251-4502

Dear Mr. Appleby:

SUBJECT: Earned Administrative Fees FYE June 30, 1994
Projects: AZ20V032002-004
AZ20E032004-009

Thank you for submitting your request for Administrative fees collected on the 2 Bedroom Fair Market Rent. Based on the exception rents provided we have verified your administrative fees earned for completion of your yearend documents as follows:

PROJECT	RATE	EARNED FEE
AZ20V032002-004	.0693	\$18,234.42
AZ20E032004-006	.0765	\$55,892.10
AZ20E032008	.0765	\$46,380.94
AZ20E032009	.0765	\$35,302.62
AZ20E032007	.0765	\$39,839.25

These earned fees are subject to review by Region IX financial analyst and only reflect verified totals you may use to complete HUD forms 52681 and 52595. This letter should be used to supplement your year-end settlement as backup documentation.

If you need any additional technical assistance in assembling data for your year end statements please contact me.

Very sincerely yours,

Allen Field

Allen Field
Data Analyst Specialist
Office of Public Housing

ATTACHMENT 4 HUD Confirmation Letter



U. S. Department of Housing and Urban Development

Arizona State Office
Suite 1600
2 Arizona Center
400 North Fifth Street
Phoenix, AZ 85004-2361

March 14, 1995

Janet Lowden, Assistant City Auditor
City of Scottsdale
7440 East First Avenue
Scottsdale, AZ 85251

Dear Ms. Lowden:

This is in response to your Facsimile Transmission dated March 10, 1995 with the following items attached:

- a. undated letter on Phoenix Office letterhead given as authorization for ongoing administrative fees for fiscal year 93/94 signed by Allen Field; and
- b. memo from Mark Appleby regarding administrative fees and HUD cuts.

The letter is signed by Allen Field identified as a Data Analyst Specialist in the Office of Public Housing. No one by that name has been employed in the Phoenix Office, Office of Public Housing, previously known as Assisted Housing Management Branch or Public Housing Division.

The information given in the above-referenced letter stating that administrative fees may be collected on the 2 bedroom fair market **exception** rent is erroneous. As stated in the U. S. Housing Act of 1937, Section 8 (q)(revised) the **published** 2-bedroom fair market rent is used to compute the administrative fee.

As indicated in previous conversations we are working with you in an attempt to resolve any additional errors that may have resulted from the erroneous information and fraudulent letter. Please continue to contact either Gail Dahl or me at 379-3045 as additional information becomes available.

Very sincerely yours,

A handwritten signature in cursive script, reading "Miriam Beauvais", is positioned above the typed name and title.

Miriam Beauvais, Director
Phoenix Office of Public Housing

ATTACHMENT 5

"Randolf Keeser" Report



U. S. Department of Housing and Urban Development

Arizona State Office
Suite 1600
2 Arizona Center
400 North Fifth Street
Phoenix, AZ 85004-2361

JAN 17 1995

Gary Roe
Planning Administrator
City of Scottsdale Housing Agency
7522 E. First Street
Scottsdale, Az. 85251-4502

Dear Mr. Roe:

SUBJECT: Desk Audit, City of Scottsdale, AZ Section 8 Housing
Programs
Report #94-AZ032

On December 12, 1994 and December 13, 1994 Mark Appleby,
Community Assistance Manager participated with our inquiry into
two specific areas of Scottsdale Housing activity:

1. STAFF OPERATIONS

The primary review elements of staff operations
include:

- a. Evaluation of staffing relative to program size and
operating expense.
- b. Assignment of duties that are compatible with the
current Administrative Plan.
- c. Clear division of financially sensitive
responsibilities with cross checks for accountability.
- d. Satisfactory knowledge of individual staff position
responsibilities by the assigned manager (Mark Appleby
circ. 1994).

2. FISCAL ACCOUNTABILITY

The primary review elements of fiscal accountability
include:

- a. Complete and accurate requisition files.
- b. Demonstrated knowledge by the manager of the program
financial status.

c. Organization of key HUD forms and support documents:

- (1) SF-21 (7-1990) - Settlement Statement
- (2) HUD 52681 - Prior Year Adjustments and Spending Receipts
- (3) HUD 52595 (2-85) - Balance Sheet for Section 8 Housing
- (4) Support documentation for Unreserved Surplus #2810
- (5) Cumulative HUD Annual Contributions #2840

d. Ability to resolve single audit report issues for the year ending June 30, 1994.

A significant portion of the review was to assess the development of the program since the last desk audit conducted November 10, 1993. An important aspect is the ability of the program to provide required fiscal information in a complete format and have the ability to defend the status of program activities based on the data provided. Each of the areas reviewed above will be referenced below by number designation and the status of that review. The initial observation made by the auditor is that Mr. Appleby was cooperative, highly organized and prepared to respond to all inquiries stipulated by this examination. We appreciate the willing participation of your staff in this review.

ITEM

1.a. NO FINDINGS

CONCERN - Based on the program operational maximum (including 10% over lease allowance) subsidy program staffing is minimal. The program has hired a "temporary" assistant for processing of subsidy paperwork, but a regular fulltime position is clearly needed.

COMMENT - The 1993 audit found complications in the lack of an independent financial officer reviewing payments. A notable improvement has been made in assigning a staff person to this position.

CONCERN - It is unusual and a significant concern to this audit that the program Manager is not a fulltime manager for the Section 8 program. Mr. Appleby produced timesheet documentation which demonstrates that about 60% of randomly selected workweeks are spent on Section 8 activities. The remainder of his time is spent on CDBG, ADA, HOME and HOPE III related projects in a descending order of time allocation. This review is satisfied with the documentation of his time allocation, but does not believe the current staffing is adequate to allow a part time manager to oversee this program.

The current full time staff is well within minimum projections on operational budgets. Our concern in this

section extends to seeing the temporary position of clerk made permanent and developing fulltime management oversight for the program.

1.b. NO FINDINGS

COMMENT - The Administrative Plan in the current state of modification was reviewed. This assessment makes no attempt to validate local decisions related to providing Section 8 program assistance and the methods to control fraud and waste. This portion of the assessment is specific to developing systems that prevent or eliminate mismanagement.

The current standards being applied clearly demonstrate ridged standards when evaluated against other local plans. There is a clear division of authority and systems appear to be in place for proper cross checking of decision making at key points in a clients program life.

1.c. NO FINDINGS

CONCERN - Mr. Appleby was able to discuss in detail the planned adjustments to program responsibilities in relation to financial administration of the program. As no documents were required relative to this part of the review we are satisfied that he has sufficient general knowledge of the program structure. We have a concern because our 1993 audit response from the City indicated financial checks and balances of the type being described by Mr. Appleby would be implemented in full by April 1994. The City has failed to meet this self-imposed deadline; however, is making satisfactory progress.

1.d. NO FINDINGS

CONCERN - During the desk audit, we were able to assess that the program manager has good general knowledge of the program, but failed to demonstrate specific detailed knowledge necessary to conduct the required operations of any given position. This is felt to be part of a shortcoming noted in having a part time manager heading program operations who has other diverse assignments.

2.a. NO FINDINGS

COMMENT - Scottsdale is one of the first programs to develop procedures and request implementation of a combined contract for Certificates and Vouchers. The process for this transition appear to be working well and we commend your program for moving ahead with this important administrative improvement.

2.b. NO FINDINGS

CONCERN - The program manager demonstrated good knowledge of the combined contracts, but could not identify individual contract awards of subsidy assistance. During an exercise in calculation of voucher allocation based on the current fair market rent the manager failed to account for current adjusted rates which apply to Scottsdale. The concern expressed is part of the issue to consider placing a fulltime management position in the program for accountability. Mr. Appleby has demonstrated a satisfactory command of program concepts and fiscal details which is the reason we determined this would not be a finding.

2.c. NO FINDINGS

COMMENT - The program files which were brought to the desk audit as support documentation were outstanding in their completeness and system of retrieval. No errors were found in any reporting documents completed since the last review in 1993. All previous findings in this area are cleared.

2.d. NO FINDINGS

COMMENT - The audit indicates that the Scottsdale Housing agency is in the process of correcting problems which led to the finding of missing social security information. As a result, our review will not control this finding. We expect this finding to be addressed and cleared in the subsequent year's audit.

For purposes of this audit, we would like the City to respond to the concerns raised in items 1.a., 1.c., 1.d. and 2.b. relative to staffing. We request that a response be provided to our office before March 15, 1995.

We congratulate the City on clearing all findings from the previous review and appreciate the time and work of Mark Appleby, Community Assistance Manager in providing all necessary documents and materials.

Should you have any questions, please contact me at 379-3045.

Sincerely,

Randolf Keeser

Randolf Keeser
Operation Analyst
Inspector General Office
Public Housing Division

c: Mayor Drinkwater, City of Scottsdale
Miriam Beauvais, Director
Public Housing Division

ATTACHMENT 6

Cover Memo

05/23/95 16:43 002 483 7438

SCOTTSDALE P.D.

002

MEMORANDUM

May 23, 1995

TO: Dick Bowers
FROM: Greg Larson
SUBJECT: HUD Desk Audit of Section 8 Program

Mark has brought to my attention his expectation that we will receive a letter from the Phoenix HUD office in the next week concerning a recently completed review. Typically, this material would be mailed directly to you. Mark feels this review is likely to produce some findings.

There has apparently been at least one review of the Section 8 program where the previous program manager (Sharon Shore) failed to notify anyone in the chain of command. She directly replied to HUD on issues raised, and until this review we were unaware of commitments made by the prior review. It is anticipated as a result of being unaware of the reply content, we will be cited as slow to correct various items. Mark has only recently seen that correspondence and expresses no major concerns over the material.

The recently completed review seemed to find flaws in our staffing of the Section 8 program for adequate delivery of services. There is an indication that the reviewer took exception to two local staffing decisions:

The first issue concerns the decision to hire a "temporary" clerk to assist with the program. HUD is likely to note that there are adequate funds in the Section 8 program budget to fund a permanent position. If this is a finding, we can address this easily by funding the position as permanent, which was our intention.

The second issue concerns the division of Mark's time between various programs. The reviewers concern seemed to have centered on the need for full time management control for this program. We will have to wait and see what issues the reviewer brings forward regarding this potential finding.

Mark does not expect findings in other areas of the program operations reviewed.

ATTACHMENT 7 HUD Confirmation Letter



U.S. Department of Housing and Urban Development
Pacific/Hawaii
Office of Inspector General for Audit
450 Golden Gate Avenue, P.O. Box 36003
San Francisco, California 94102-3448

March 22, 1995

Cheryl Barcala, City Auditor
7440 East First Avenue
Scottsdale, AZ 85251

Dear Ms. Barcala:

Reference your March 21, 1995 telephone conversation with Charles Johnson of our Phoenix Office. You faxed Mr. Johnson a January 17, 1995 letter to the City of Scottsdale Housing Agency. The letter had a letterhead for the HUD Phoenix Office and was purportedly signed by "Randolf Keeser, Operation Analyst, Inspector General Office, Public Housing Division."

You asked Mr. Johnson whether the subject letter was from this office (Office of Inspector General). It was not, and there is no employee of this office staff with that name. Additionally, this office did not conduct a "desk audit" of the City's Section 8 Housing Program as stated in the letter.

We have referred this matter to the Special Agent in Charge in HUD's Office of Investigations in San Francisco.

Thank you for bringing this matter to our attention. If you have any questions or obtain any additional information relating to this matter please contact me at (415) 556-1010 or Mr. Johnson at (602) 378-4681.

Sincerely,

for Gary E. Albright
District Inspector General for Audit

cc: Dan Pifer, Special Agent in charge

**Reports Issued
Office of the City Auditor
Scottsdale, Arizona**

Chartered in 1988, the mission of the City Auditor Office is to conduct audits of all departments, offices, boards, activities, and agencies of the City, providing independent, timely, and relevant information to determine whether operational efficiency and financial integrity are being promoted.

Community Services

WestWorld Contract Compliance, Report No. 9103, September 1993

Tournament Players Club Contract Compliance and Related Issues, Report No. 9102, December 1991

Scottsdale Cultural Council Contract Administration Progress, Report No. 8903.1, May 1993

Scottsdale Cultural Council Contract Performance and Compliance, Report No. 8903, April 1990

Financial Services

Accounts Payable Control Review, Report No. 9203, June 1995

City Parcel Database, Report No. 8902.1A, December 1992

Progress Since 1989 In Property Tax Management, City of Scottsdale/Maricopa County, Report No. 8902.1 and 9002, October 1992

Property Tax Management Practices, City of Scottsdale/Maricopa County, Report No. 8902, September 1989

Scottsdale Water Service Company Contract Compliance, Report No. 8802C, January 1994

Utility Bill and Tariff Costs, Scottsdale Water Service Company, City of Scottsdale, Report No. 8802B, October 1991

Utility Bill and Tariff Costs, City of Scottsdale, Report No. 8802A, April 1991

Transportation

Attestation Audit on Urban Mass Transportation Administration Reports and Related Scottsdale Connection, Report No. 9001, September 1990

Municipal Services

Capital Improvement Program Control Review, Report No. 9101, November 1994

Planning and Development

City Section 8 Housing Assistance Program Operations, Report No. 9403, June 1995

Follow-Up of CDBG Internal Control Weaknesses, Report No. 9004.1, April 1994

Investigation of Internal Control Weaknesses Involving Community Development Block Grant Funds and Other City Resources, Report No. 9004, April 1990

Section 8 Transactions Report, Report No. 9403A, September 1995

General Government, including automated systems

City Clerk Operational Audit, Report No. 9201, August 1993

Dial-In Security System Project Evaluation, Report No. 9010B, December 1992

Investigation of Internal Control Weaknesses in the Communication Services Section in the Office of Management Systems, Report No. 9005, December 1990

Scottsdale City Court Financial and Related Operational Management Practices, Report No. 9003, May 1991

Office of Management Systems General Controls, Report No. 8905, September 1990

Preliminary Survey Covering City of Scottsdale Automated Systems, Report No. 8904, November 1989

Perquisite Management Practices, Report No. 8801, April 1989

Police/Fire

Scottsdale Police Department Imprest and RICO Financial and Related Operational Management Practices, Report No. 9105, August 1991

Attestation Audit on Inventory Moved During Police Property and Evidence Room Relocation in February 1989, Report No. 8902, April 1989

Scottsdale City Auditor reports are intended to promote the best possible management of public resources. You are welcome to keep this report copy if it is of continued value to you. If you no longer need it, you are encouraged to return it to: City Auditor, City of Scottsdale, PO Box 1000, Scottsdale, AZ 85251. Reports may be ordered by writing to the address above, by telephoning (602) 994-7756, or by faxing (602) 994-2634.
